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OFFICE OF THE
EXECUTIVE SECRETARY

July 6, 1999

Mr. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243-0505

Dear Mr. Waddell:

The purpose of this letter is to submit to the Tennessee Regulatory Authority ("TRA") a summary of the steps that have been taken by Atlanta Gas Light Company and Chattanooga Gas Company ("the Company") in order to correct the deficiencies noted by the TRA in the Company's Actual Cost Adjustment ("ACA") filing. This response is required from the TRA's order of June 22, 1999 in Docket 98-00776.

As stated at the TRA Conference on June 8, 1999, the Company finds the audit results totally unacceptable and an embarrassment. We also recognize that these deficiencies are not only the full responsibility of the Company but that they could have been averted through a monitoring process that should have been in place.

In order to ensure that these deficiencies are not repeated in the future, the Company has already taken the following steps:

1. The Company has contracted with an independent CPA firm in order to first review our future ACA filings before they are submitted to the TRA. Specifically, this CPA firm has been engaged to perform the following procedures:
 - Determine that the Company's analysis of the deferred gas cost account is clerically accurate.
 - Determine that the Company's analysis of the balance in the deferred gas cost account at the end of each month reconciles to the Company's general ledger balance.
 - Trace the gas costs incurred for each month on the analysis to the schedule of "Purchased Gas Invoice Adjustments" and to invoices from suppliers and determine that the costs are clerically accurate and properly classified between demand and commodity costs.
 - Trace the gas costs recovered for each month on the analysis of the Company's schedule of "Actual MCF Billed". Trace the volumes on the "Actual MCF Billed" schedule to the Company's "Monthly Schedule of Customers, Volumes

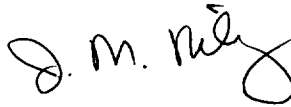
and Revenues” and to the billing registers. Trace the costs recovery rates on the “Actual MCF Billed” schedule to the filed rates for each month. Determine that the volumes and rates on the “Actual MCF Billed” schedule are properly broken down between demand and commodity components. Determine that the “Actual MCF Billed” schedule is clerically accurate.

- Vouch storage injection and withdrawal volumes to the appropriate documentation including information from the pipelines and suppliers. Trace the costs for storage injections to the “Purchased Gas Cost Worksheet” and to invoices from the pipelines and suppliers. Trace the costs for storage withdrawals to the Company’s inventory records. Trace the storage inventory to documentation from the pipelines and suppliers and to the inventory records. Trace the storage gas costs to the general ledger. Verify the clerical accuracy of the inventory records.
 - Trace the company use volumes to supporting documentation and recalculate the cost recovery.
 - Trace unbilled gas costs on the Company’s analysis to the schedule of “Unbilled MCF Volumes” for each month. Test the computation of unbilled volumes and trace the cost recovery rates to the filed rates for the month. Test the clerical accuracy of the “Unbilled MCF Volumes” Schedule.
 - Test the calculation of interest included on the Company’s analysis. Trace the interest rates used in the Company’s analysis to prime rates published by the Federal Reserve Bulletin as required by the TRA’s rules. Verify that interest is computed on the average monthly balance of the deferred cost accounts for both commodity and demand.
 - Trace the gas costs recovered from off-system sales on the Company’s analysis to the schedule of “Off-System Sales Revenue and Off-System Gas Costs”. Test the clerical accuracy of the “Off System Sales Revenue and Off-system Gas Costs.”
 - Trace and clerically verify the SS-1 margin losses on the Company’s analysis to the “Calculation of Loss in Gross Profit From Sales Using Special Service Rate Schedule SS-1” schedule.
 - Trace other miscellaneous items to supporting documentation.
 - Select a sample of customer bills to determine that customers were billed correctly.
2. The Company has devoted two individuals whose full time responsibility is to ensure that Tennessee operations are properly accounted for, including gas costs. Attached is a checklist that will be used by these individuals to monitor gas costs on a monthly basis.

3. The Company intends to conduct regular monthly meetings with the TRA Staff. We believe that a continuing dialog will help alleviate small errors before they become material.

While the Company certainly can't guarantee that we will not make any errors or mistakes in the future, we do commit that the TRA will not see another audit report like the current one. Instead, the Company looks forward to the TRA's next audit in order to prove that our commitment to correct these deficiencies is sincere.

Sincerely,

A handwritten signature in black ink, appearing to read "J.M. Riley". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

J.M. Riley

Senior Vice President and Chief Financial Officer

Attachment

c: Chairman Melvin Malone
Director Lynn Greer
Director Sara Kyle
Energy & Water Division

Monthly
Check - Initials

[illegible]

- 1 Rates used on Actual MCF Billed and Unbilled Revenue schedules agree with the correct rates for the month.
- 2 Actual MCF billed schedule agrees with Total Billing / MAIS Billing schedules.
- 3 Storage Injections and Withdrawals recorded correctly.
- 4 Correct interest rate used to compute interest.
- 5 SS-1 schedule agrees with final customer invoices (volumes and rates).
- 6 Unbilled Revenue schedule agrees with ACA schedule and reversal was recorded correctly.
- 7 Inventory schedules agree with General Ledger.
- 8 Nominated cost of gas entry reversed, offset by invoices on voucher distribution and adjusting entry.
- 9 Nominated amount for storage withdrawals trued up to actual in the following month - agrees with supporting schedule.
- 10 Nominated amount for storage injections trued up to actual in the following month - agrees with supporting schedule.
- 11 Nominated amount for interest trued up to actual in the following month - agrees with supporting schedule.
- 12 Verify that all adjustments related to Off-System Sales are properly recorded and agree with the G/L.
- 13 Formulas on ACA schedule are correct / Manually foot the schedule.
- 14 Demand and Commodity amounts are posted to correct portion
- 15 Manually foot all supporting schedules
- 16 Final supervisory review and sign-off